

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Briggs Analyst: Jeff Garnier Bill Number: AB 76XX

Related Bills: See Prior Analysis Telephone: 845-5322 Amended Date: July 19, 2001

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Hot Water Recirculating System Credit

- ☒ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced June 19, 2001.
- ☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
- _____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.
- _____ FURTHER AMENDMENTS NECESSARY.
- _____ DEPARTMENT POSITION CHANGED TO _____.
- ☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED June 19, 2001 STILL APPLIES.
- _____ OTHER - See comments below.

SUMMARY

This bill would provide a credit, equal to 50% of the costs, not to exceed \$600 per taxpayer, for the installation of a hot water recirculating system.

SUMMARY OF AMENDMENT

The July 19, 2001, amendment resolves the department's implementation and policy concerns. The amendments would:

- ?? Allow a credit for hot water recirculating systems installed on structures located in California;
- ?? Limit the credit to \$600 per taxpayer; and
- ?? Remove the provision allowing a taxpayer purchasing the structure after the hot water recirculating system was installed to qualify for the credit.

Except for the three items discussed above and the "ECONOMIC IMPACT," the department's analysis of the bill as introduced June 19, 2001 still applies.

POSITION

Pending.

Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	<input checked="" type="checkbox"/> PENDING

Legislative Director

Date

Brian Putler

08/24/01

ECONOMIC IMPACT

Revenue Estimate

Based on the data and assumptions below, revenue losses are estimated as follows:

Estimated Revenue Impact			
Taxable/Income Years Beginning On or After January 1, 2001			
Fiscal Years			
(In Millions)			
	2001-2	2002-3	2003-4
Hot Water Recirculation Systems Credit	-\$5	-\$5.5	-\$7

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

The impact of this bill would depend upon the number and type of taxpayers installing these systems, the average credit claimed, and the average credit applied against tax liabilities.

It is projected that in California for 2001, approximately 115,000 single-family residences will be renovated or remodeled with an additional 115,000 new homes being started. Of these, 11,000 single-family home renovations are expected to qualify for this credit at an average system cost of \$350. It is also anticipated that 2,000 new homes will qualify the purchaser for this credit. Systems installed in new homes are more apt to include a third pipe, dedicated to the return of hot water to the water heater, since the installation of the pipe does not require extensive renovation as it would in existing homes. The systems installed in new homes are projected to cost approximately \$800, an average cost of various system types.

The number of multifamily residences projected to be built in California in 2001 is 43,234. It is expected that approximately 900 of these residences will have systems installed at an average cost of \$800 per system. It is also expected that an additional 900 retrofit systems will be installed in multifamily residence renovations or remodels at an average cost of \$350 each. Five units is the projected number of units per each multifamily residence.

Applications for industrial and commercial usages of hot water recirculation systems include hotels, hospitals, hair salons, ships, and machinery and tool manufacturers. The commercial and industrial systems can employ larger, more sophisticated systems and/or a vast number of systems for one business. Data pertaining to the cost, current usage, and potential growth rates for the industrial and commercial systems is not readily available as it is for residential applications. Due to the number and expense of these types of systems, the projected revenue loss was conservatively estimated at 50 percent of the total residential revenue loss.

The projected incentive effect for purchases of hot water recirculation systems associated with the proposed 50% credit limited to \$600 per taxpayer is 2%. Less than one percent of new California homes are now equipped with hot water recirculation systems.

Estimates were developed in coordination with building industry experts at the California Building Industry Association, water usage experts at various California irrigation districts, representatives of hot water recirculation systems manufacturers, and information from various government agencies.

LEGISLATIVE STAFF CONTACT

Jeff Garnier
Franchise Tax Board
845-5322

Brian Putler
Franchise Tax Board
845-6333